CANADA

NATIONAL ENERGY BOARD
REASONS FOR DECISION

In the Matter of the Application under
Part IV of the National Energy Board Act

of

TNPL INC.

December 1981

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Ce rapport est publié
séparément dans les
deux langues officielles.

NATIONAL ENERGY BOARD

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

IN THE MATTER OF an application by TNPL INC. for certain orders respecting rates and tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T2-4.

HEARD AT Ottawa, Ontario On:

9, 10, and 12 November 1981.

BEFORE:

J.R. Hardie	Presiding Member
J.L. Trudel	Member
R.B. Horner	Member

APPEARANCES:

J.H. Francis, Q.C.	TNPL INC.
R.S. O'Brien, Q.C.	Air Canada, Canadian Pacific Air Lines Limited, Eastern Air Lines Inc., U.S. Air Inc., British Airways Board, Delta Airlines Inc., Eastern Provincial Airways (1963) Limited, Deutsche Lufthansa AG, Compagnie Nationale Air France, Lot Polish Airlines, Nordair Ltée - Nordair Ltd., Swissair Swiss Air Transport Company Limited, Koninklijke Luchtuaart Maatschappij N.V., Alitalia-Linee Airee Italiane S.P.A., American Airlines Inc., and Pacific Western Airlines Ltd.
D.E. Clarke E.A. Abssy	Imperial Oil Limited
D. Harvie	TransCanada PipeLines Limited
J.R. Conrad	Canadian Federation of Independent Petroleum Marketers
L.E. Smith	Board Counsel

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ABBREVIATIONS

"the Applicant", "the Company" or "TNPL"	-	TNPL INC.
"the Act"	-	National Energy Board Act
"the Board" or "NEB"	-	National Energy Board
"CCA"	-	Capital Cost Allowance
"DCF"	-	Discounted Cash Flow
"Interprovincial"	-	Interprovincial Pipe Line Limited
"November 1979 Decision" or "November 1979 Reasons for Decision"	-	Reasons for Decision in the Matter of an Application by Trans-Northern Pipe Line Company Under Part IV of the National Energy Board Act - National Energy Board - November 1979
"Trans Mountain"	-	Trans Mountain Pipe Line Company Ltd.

CHAPTER 1
THE APPLICATION

Trans-Northern Pipe Line Company was incorporated by a Special Act of the Parliament of Canada on 30 April 1949 and is empowered to construct or otherwise acquire and operate interprovincial pipelines and appurtenant facilities for the transportation of oil and refined products. The Company was continued on 11 December 1980 under the Canada Business Corporations Act as TNPL INC.

TNPL owns and operates a pipeline for the transportation of refined petroleum products from refineries in Southern Ontario and in Montreal to marketing areas along Lake Ontario and the St. Lawrence and Ottawa Rivers. This pipeline extends 894 kilometres including loops, from Nanticoke in the Province of Ontario to Montreal in the Province of Quebec with laterals to Dorval, Mirabel and Toronto airports and to Ottawa. In addition, the Company operates 25 kilometres of leased pipeline between Toronto Airport Junction and Cummer Junction.

By an application dated 4 September 1981, as amended, TNPL applied under Part IV of the National Energy Board Act for an Order approving just and reasonable tolls and tariffs to be charged by the Applicant for the transportation of refined petroleum products.

By Order No. RH-5-81, the National Energy Board set down the application under Part IV of the NEB Act, for public hearing starting 9 November 1981 in Ottawa, Ontario. A copy of this Order appears as Appendix I to these Reasons for Decision. The hearing concluded on 12 November 1981.

After the close of the hearing, the Minister of Finance introduced his Budget in the House of Commons on 12 November 1981. This proposed two changes which will affect the taxes payable by TNPL. The Board notified all parties to the hearing that it intended to take these proposed changes into account in its Decision and invited comments. No comments were received from any party.

CHAPTER 2

REQUEST FOR RESTATEMENT OF DEPRECIATION

The Applicant's Position. Incorporated in 1949, the Company completed construction of its initial facilities in October 1952 and began operations in the following month with the three owners, Gulf Oil Canada Ltd., Shell Canada Limited and Texaco Canada Limited, as sole shippers. Petrofina started shipping through the pipeline in 1955, followed by BP Canada in 1960, Imperial Oil and Sun Oil in 1963 and recently Murphy Oil.

In 1952 its operation and earnings were not regulated. At that time the income tax regulations required that the Capital Cost Allowance could not exceed the depreciation written on the books. The Company chose to minimize its taxes and consequently depreciated its plant on the same diminishing balance basis and rates as the maximum income tax allowances. When the income tax regulations were changed to no longer require the booking of claimed CCA, no change was made in the Company's practice of charging depreciation at CCA rates. In January 1974 the Company applied to the Board to change to straight-line depreciation and this was approved for accounting purposes.

To conform to generally accepted accounting principles following the change in depreciation method, the Company in 1977 recorded the proposed restatement in its corporate books of account and in a rate application in the same year applied for Board approval of the restatement for rate-making purposes.

After the Interprovincial Pipe Line Limited rate case in 1977, TNPL expected that its future earnings would be regulated under a cost of service net original cost rate base form of regulation. Of course, the use of the diminishing balance method had left it with a greater amount of accumulated depreciation and therefore a lower rate base than if it had used the straight-line method which was normal for the oil pipeline industry in Canada.

With the object of proceeding under active return on rate base regulation with a fair rate base, the Applicant in its first rate hearing in 1979, requested a restatement of depreciation. In the November 1979 Decision, the Board allowed an amount of two million dollars. The Company has applied in these proceedings for a restatement of the remaining balance of $5,171,668.

The applied-for adjustment was calculated by applying the 1974 approved straight-line depreciation rates to the assets of the Company from the start of its operations in 1952 to 31 December 1981. The amount of the restatement requested is the difference between the amounts resulting from those straight-line rates and the actual depreciation booked from 1952 through to 31 December 1981. The calculation is as follows:

	1 January 1982
Accumulated Depreciation:	
After Restatement	$22,269,169
Before Restatement	27,440,837
	$ 5,171,668
Restatement Determined Reasons for Decision November 1979	$ 7,108,019
Restatement Allowed by the Board	(2,000,000)
Adjustments made by Company to correct errors	26,952
Adjustment due to difference between actual accumulated depreciation and estimate in 1979 rate application	36,697
	$ 5,171,668

TNPL's counsel in argument stated that in requesting restatement of its depreciation, it really is asking for a fair and equitable rate base, consisting of a true or fair value of the assets dedicated to the utility service. He went on to state that the issue before the Board is to determine whether the restatement of depreciation would provide a fair and reasonable rate base.

An expert witness for the Applicant considered that, from an economic theory point of view, the correct rate base for a company entering into regulation should reflect the economic or market value of the assets at that point in time. This value is determined by the expected stream of future earnings. But in the depreciated historical cost rate base methodology future earnings are projected by the regulator through the application of an allowed rate of return on a rate base. To meet the requirements of the expert witness, either the future earnings stream or the rate base must be known. He assumes the stream of future earnings and thus establishes a present market value for the assets which he states should be the value of the rate base for regulation purposes.

This would of course be a self-fulfilling prophecy since the earnings based on such a rate base would equal those assumed in the calculation of the rate base. The Board does not therefore consider that this economic theory is helpful in determining a reasonable value for a rate base.

An expert witness for the Applicant proposed a means for arriving at a suitable rate base. He stated that a depreciation accounting policy should be set so that the periodic provision bears a reasonably close relationship to the contribution to revenues by the plant during its useful life. Thus, he pointed out that usage of the plant of utility companies is normally relatively even over its life so that equal annual depreciation charges ought best to reflect expiry of the service value of the asset. For this reason, and also to maintain a fairly stable level of tolls, straight-line depreciation is the most usual pattern utilized by pipeline companies.

The declining balance method adopted in 1952 by TNPL started with high write-offs in the early years which were not in harmony with rate of depletion of its estimated useful life. In this connection the witness referred to the 6.5 percent of plant cost written off in the first two months (0.42 percent of a 40 year life) followed by a further 6 percent in 1953 (2.50 percent of a 40 year life).

The witness submitted that a very practical way to obtain a fair and reasonable rate base measure at the point of transition to formal regulation is to use historical cost accounting related concepts and procedures which are fundamental to the regulatory methodology which will apply to the company in the future. For TNPL the most straight-forward procedure would be the recalculation of the accumulated depreciation reserve as though straight-line depreciation accounting had been used since 1952, using annual rates based on the estimated economic life.

A Company witness also supported the straight-line depreciation measure to set the rate base by referring to a recent depreciation study carried out for TNPL by outside specialists. Based on a mortality history of the assets, the consultants arrived at a theoretical depreciation reserve at the end of 1979 of $18,090,155 which is close to the $19,352,108 book value if restatement is allowed.

An expert accounting witness for the Company stated his view that depreciation accounting policy is set when an asset is acquired and should reflect expectations of the asset's contribution to future revenue generation, but that, once the policy is established and begins to be applied, it proceeds essentially independently of any particular year's revenue experience. On the other hand, he agreed that when unregulated companies prepare their budgets they are careful to try to ensure that selling prices cover all costs including depreciation plus an acceptable profit. Any shortfall is borne by the shareholders.

This expert witness proposed a test which he considered might throw some light on the problem of possible double recovery as a result of the restatement. TNPL's operating results were restated each year back to 1952 to reflect straight-line depreciation and normalized tax accounting according to the practice of the oil pipeline industry in Canada. By thus reducing the annual depreciation charge in the earlier years, earnings showed an increase and the argument offered was that, since these increased returns did not appear to be excessive in comparison with other available corporate statistics on comparable industrial companies and other oil pipelines, a restatement based on straight-line depreciation provided a fair rate base measure and could be judged appropriate. He considered that since the higher returns resulting from a restated straight-line basis were not excessive, double recovery was improbable.

Views of the Board. In its November 1979 Decision the Board stated its reasons for allowing only part of the applied-for adjustment to the accumulated depreciation. The main concerns were the risk of double recovery of the Company's investment, and the possibility of TNPL being in a more favorable regulatory position than a company which merely changed its rates of depreciation rather than also adjusting the accumulated balance.

With respect to the double recovery issue, the Board has given careful consideration to all aspects of this matter in the light of the additional evidence and argument adduced at this hearing. Based on the reasoning advanced in the evidence of the Applicant's expert accounting witness, it is fair to conclude that, if the restatement of depreciation were allowed, double recovery of the investment would not occur.

With respect to the latter concern, current regulatory practice for companies which apply to adjust for revised estimates of a pipeline's remaining service life, is to allow prospective increases in annual rates of depreciation, but not adjustments to

accumulated depreciation. TNPL's application differs materially from such situations in that the change to an historical cost rate base method of regulation which overtook the Company in 1979 was completely involuntary on its part and could not have reasonably been expected to be foreseen when the original depreciation policy was set.

The Board considers that the situation with regard to TNPL's depreciation is unique. The rates used in the early years of the pipeline operation were established without a study of the expected useful life of the line, and apparently without even any consideration of its expected life. They were designed solely from utilizing the maximum rates allowed by the income tax regulations with the object of minimizing the taxes payable by the Company. No consideration seems to have been given by the management of the Company to the possible effect of such a policy on the rates and tolls of the pipeline.

Taking into account these unique circumstances, the Board considers that, in the particular circumstances of this case, it would be appropriate to restate the accumulated depreciation. Accordingly, it directs that the accumulated depreciation be reduced by $5,171,668 as at 1 January 1982 and the deferred tax liability be increased by $2,441,236 at the same date. The deferred tax liability is to be deducted from rate base in calculating the tolls. The Board will require TNPL to record in its books and accounts as of 1 January 1982 the entry required to give effect to this decision, viz.

Dr. Account 31 - Accumulated depreciation, transportation plant	$5,171,668	
Cr. Account 71 - Accumulated tax reductions applicable to future years		$2,441,236
Cr. Account 92 - Retained earnings		$2,730,432

CHAPTER 3

RATE BASE AND ASSETS SPECIALLY CLASSIFIED

Summary of Rate Base. TNPL submitted a proposed rate base composed of the average cost of assets in service at the begining and at the end of the test year, 1982, plus an allowance for working capital. The Board has made adjustments to the rate base which are explained in detail in the remaining sections of this chapter.

The rate base as submitted by the Applicant, the adjustment resulting from a correction made by the Applicant, and adjustments made by the Board, are summarized in Appendix III.

Plant Additions. The plant additions to rate base have been approved by the Board. During the hearing the Applicant submitted evidence adjusting the additions proposed for 1982 which had been overstated due to an error in the application. There was some questioning of the Applicant on the probability of completing the full amount of plant additions applied for, taking into account its experience in the preceding years, but confidence was expressed that all additions included would be completed.

The Board has decided to accept the Applicant's forecast with respect to the extent of completion and will allow the additions requested by the Applicant as adjusted.

Total reflected in application	$2,130,268
Error correction	32,000
Adjusted amount	$2,098,268

(Because the allowed rate base includes the average of the opening and closing book value of Transportation Plant, only one-half of this total is reflected in rate base).

Assets Specially Classified. In the Reasons for Decision of November 1979, the Board identified assets specially classified with a cost of $710,844 as at 1 January 1980. In this application,

the Applicant has included assets having an original cost of only $366,639 as assets specially classified. During the hearing, in response to a request to reconcile these two amounts, the Applicant submitted a list which excluded the Brighton pump station. In the Class 2 toll adjustment application of February 1981, the Applicant indicated that Brighton was never transferred out from plant in service because the station was continued in operation. The net book value of the station as at 1 January 1980 was $142,514.

Because the Brighton pump station was continued in service, the Board agrees that it should not be included in assets specially classified; and finds that the amounts shown as assets specially classified in the present application now reflect the value of those assets and therefore approves the amount indicated.

Working Capital. TNPL proposed to include in its rate base an allowance for working capital made up of the following: a cash requirement equal to 28 days cash operating expenses, material and supplies inventories, prepaid amounts for rent, insurance, municipal taxes, and a provision for the average deferred costs pertaining to the north line study.

The Applicant did not perform a new lead lag study to ascertain if the 28-day cash requirement established as a result of the 1979 rate case was still appropriate. A Company witness stated that he believed that the results obtained from the 1979 lead lag study are still valid.

One intervenor, in final argument, indicated that in the most recent decisions with regard to Trans Mountain Pipe Line Limited and Interprovincial Pipe Line Limited, lead lag studies resulted in a reduction of the number of days allowed for cash working capital by a downward adjustment to the provision of a cushion for "lumpiness". It was argued that the working capital should be reduced to 20 days of cash operating expenses because the shipper owners account for about 71 percent of the amount of accounts receivable outstanding at year end.

The Board finds that there was not sufficient evidence adduced by any intervenor to justify a change from the previous

allowance of 28 days cash operating expense and accepts the view of the Applicant that the cash component of working capital should be based on 28 days of cash operating expenses.

The Board finds that the approaches used to determine other components of working capital are reasonable, except for the unamortized portion of the deferred expenses pertaining to the north line study. For the reasons set out on pages 14 and 15 the Board has excluded $321,755 pertaining to the north line study. A recapitulation of working capital allowance as submitted by the Applicant and as approved by the Board follows:

SUMMARY OF WORKING CAPITAL

	Company's Revised Submission	NEB Adjustment	NEB Determination
Total operating expenses	$11,282,000	($ 49,000)	$11,233,000
Less: Municipal property taxes	(1,210,000)		(1,210,000)
Insurance expenses	(82,000)		(82,000)
Rental expenses	(620,000)		(620,000)
	$ 9,370,000	(49,000)	$ 9,321,000
Add: Income taxes payable	3,658,228	25,022	3,683,250
Net cash operating expenses	$13,028,228	(23,978)	$13,004,250
Cash working capital			
28/365 x $13,028,228	$ 999,426	($ 1,840)	
28/365 x $13,004,250			$ 997,586
Material & supplies	455,000		455,000
Prepaid rent	211,000		211,000
Prepaid insurance	37,000		37,000
Prepaid municipal taxes	173,000		173,000
Unamortized deferred expenses	321,755	(321,755)	-
	$ 2,197,181	($323,595)	$ 1,873,586

Deferred Taxes. In conformity with the November 1979 Decision, the Applicant proposed the deduction of average deferred taxes from the rate base. The Board has revised opening and closing deferred tax balances to incorporate Board adjustments to the calculation of income taxes described in Chapter 4.

CHAPTER 4

COST OF SERVICE (EXCLUDING RETURN)

Summary of Operating Expenses. The expenses of operating the pipe line system comprising maintenance, transportation, and general and administrative expenses as proposed by the applicant and as approved by the Board are summarized in the table below.

After giving effect to the adjustments indicated in the following table the Board approves an amount of $11,233,000 for inclusion in TNPL's Cost of Service for Operating Expenses in the test year. These adjustments are discussed in detail in the rest of this chapter.

OPERATING EXPENSES

	MAINTENANCE	TRANS-PORTATION	GENERAL AND ADMINIS-TRATIVE	TOTAL
Per application	$2,120,000	$4,233,000	$4,929,000	$11,282,000
Adjustments:				
Oil loss provision		(50,000)		(50,000)
1% reduction on salary & wages and 1/3 reduction for promotion and progression	(13,000)	(26,000)	(26,000)	(65,000)
Hearing costs			66,000	66,000
Total adjustments	(13,000)	(76,000)	40,000	(49,000)
Allowed by the Board	$2,107,000	$4,157,000	$4,969,000	$11,233,000

Wages and Salaries. The Applicant, in its estimate of test year salaries, provided for general increases of 13.5 percent in 1981 and 13 percent in 1982. The Company stated that these escalation factors were determined in relation to wage settlements in the industry. The Company also included an allowance for promotions and progressions of $75,000 in 1982. The Company proposed to increase its staff by three administrative personnel, but proposed no improvements in its employee benefits, although the cost of providing these benefits will increase.

The Board is aware of industry-wide settlements for wages and salaries and has not found economic adjustments greater than 12 percent for 1982. The Company did not demonstrate or put forward sufficient evidence to justify its 13 percent request for 1982. With respect to the allowances for promotions and progressions, the Board accepts the argument of low turnover in the Company's staff; however, it is the Board's view that having regard to the actual requirements of previous years an amount of $50,000 will be sufficient to keep the Company's salary package competitive. The proposed increase in staff and the allowances proposed for employee benefits are considered reasonable.

For the above reasons, total proposed wages and salaries for the test year 1982 will be reduced by $65,000; made up of a reduction of 1 percent in the 1982 general increase and $25,000 reduction in the allowance for promotions and progressions.

Oil Loss. The Applicant submitted estimates of the values of oil losses due to product loss or gain and downgrading for 1981 and 1982. In both years TNPL expects no product gain or loss caused by metering inaccuracies. The loss due to downgrading of interfacial mixture is estimated to be $25,000 in 1981 and $75,000 in 1982. The increase in 1982 over 1981 is attributed to expected increases in petroleum product prices. Thus, TNPL estimated a net oil loss of $75,000 for 1982.

Although for the test year the Company estimated no product gain or loss caused by metering, the evidence shows a historical pattern of net product gain. In the November 1979 Decision, the Board provided for a $25,000 product gain and a $50,000 loss due to downgrading.

Based on the evidence, the Board is not persuaded that there will be no product gain in 1982 and that substantial price increases alone could account for the tripling of the estimated loss for 1981 due to downgrading. The Board considers more reasonable estimates for 1982 to be a $25,000 provision for product gain offset by a $50,000 loss due to downgrading. This results in an allowed net oil loss of $25,000 for the test year.

Costs of the North Line Study. In 1979 the Applicant began deferring costs related to a study of a proposed pipeline to carry products from Toronto to North Bay. Although at the initial stage of the study the proposal appeared viable, current conditions have made this project uneconomical. Faced with diminishing demand for petroleum products in this market area, high interest rates and rapidly escalating construction costs, the Company terminated any further efforts to build this line. If the line had been built these project costs would have been capitalized. Evidence was adduced to indicate that the line would have benefitted present shippers by sharing a portion of system overhead costs as well as by increasing the throughputs and productivity of the existing system.

In argument, one intervenor stated that the proposed line was studied as a venture for the owners of TNPL to invest funds and that the purpose of the study was to see if the project would earn adequate returns for them. He asserted that this was almost identical to the Trans Mountain Pipe Line case where Trans Mountain had proposed to include in its rate base a deferred charge of four million dollars for project development costs associated with a proposed west-to-east pipeline to transport crude oil from Low Point, Washington to Edmonton, Alberta. In that case it was

decided that the project development costs should not be included in rate base for two reasons; first, if the new line were built it would not be part of the existing system; and secondly, the benefit to the present system was not established. The intervenor argued that TNPL costs with respect to the north line study should be similarly treated.

In the case of the proposed northern line the Board accepts the evidence of the Applicant that users of the present system would have received some benefit and therefore agrees the project costs should be amortized at a rate of $128,702 per year starting in 1982. Since there will be no continuing benefit to pipeline users from this study, the Board directs that the unamortized balances of costs of the north line study be excluded from the calculation of working captial.

Hearing Costs. During the hearing the Applicant indicated that it expected hearing costs of $150,000 be amortized over a three-year period beginning with the test year. The Applicant also indicated that $84,000 had been included in the costs for 1981.

None of the intervenors adduced evidence with respect to hearing costs.

The Board finds that the hearing costs are not large enough to require amortization over a three-year period and consequently directs that the hearing costs be expensed as incurred. The Board considers that the estimated costs of $150,000 are reasonable and directs that the excess over the $84,000 expensed in 1981 ($66,000) be included in the test year Cost of Service. The Board, therefore, adjusts the Cost of Service expenses for the test year by increasing the General Expenses by $66,000.

Application for Depreciation Rate Changes. In the November 1979 Reasons for Decision the Board directed the Applicant to perform a study to determine the service value and estimated service life of plant as required in section 54 of the Oil Pipeline Uniform Accounting Regulations. The Applicant had studies performed by

external consultants to determine the economic and physical life of the pipeline system. The Applicant filed these studies as part of the evidence for this hearing. It has relied on the study based upon the experienced mortality of capital assets to a degree in determining its proposed rates, but departed from it when dealing with some rather important issues. These are enlarged upon hereunder.

(a) Whole Life vs. Remaining Life. In 1974, when the Applicant changed its depreciation method from declining balance to straight-line, it adopted the whole life technique for determining the rates. In the current hearing the Applicant indicated that it would like to have the results of further studies before considering a departure from this technique. Reasons given by the Applicant for continuing to use the whole life technique were: first, before the Company was required to file a list of plant units with the Board the Applicant expensed expenditures to the full extent permitted by the income tax authorities in order to minimize its income taxes, although some expenditures would have been accounted for as capital items in plant unit accounting. Since the mortality study was based on the accounting records, such accounting treatment of replacements which would now be considered as plant units would affect the observed mortality; secondly, the Applicant is still operating many pieces of equipment that have been in use since the early days of the system and it expected that retirements in the next few years will be greater than the historical experience. The mortality study cannot reflect this future "lumpiness" and as a result the experience of the Company does not reflect a true picture of the long term timing of additions and retirements. The Company's witness stated that for these reasons, a depreciation study based on experienced mortality would produce depreciation rates lower than would be reasonable in the particular circumstances of this company.

To determine the useful life of the system the Applicant had performed a long range forecast of throughput for petroleum products. From this it had concluded that the economic life of the system would exceed the physical life and therefore considered the physical life of the system to be the limiting factor in determining depreciation rates.

The study of the external consultant determined depreciation rates by using the remaining life technique, but the study allows for the application of the whole life technique because it provides an estimate of the expected average life. The depreciation rates proposed by the Applicant using the whole life technique are lower than the rates presently in effect, but the lower rates result largely because the pipeline assets are now considered to have a longer life than originally estimated. The rates determined by the consultant are in the average lower than the rates determined by the Company, but in the determination of these rates the consultant provided a negative salvage value for certain categories of assets. In the direct evidence the Applicant indicated that although it supported the concept of negative salvage it had neither the experience nor the evidence to support the amount, and consequently decided not to include a provision for negative salvage in the current application. Concerns were raised during the hearing that under the whole life technique, when the useful life of an asset exceeds the original estimate the total amount of depreciation will exceed the cost of the asset. The Applicant's witness indicated that depreciation would not exceed the cost of the asset because the asset would only be depreciated to a zero net balance.

The Board has considered the technique for determining depreciation rates and the reasons why the Applicant would prefer to continue to use the whole life technique. The Board notes that if the whole life technique were used and the original estimate for useful life proves

inaccurate, an excessive or deficient accumulation reserve could occur. The depreciation technique adopted should ensure that the cost of the facilities is recovered over their useful life, and that present and future users pay their fair share of the original costs. If a depreciation technique could produce a situation where the cost of the facilities may be either over or under-recovered, that depreciation technique cannot be said to be appropriate. The Board therefore directs that the Applicant use, both for rates and accounting purposes, depreciation rates determined by the remaining life technique.

(b) Vehicle and Work Equipment. The external consultant had determined that the remaining balances for vehicles and other work equipment acquired prior to 31 December 1979 should be depreciated at the rate of only 0.15 percent since these assets were almost fully depreciated. The Applicant continued to depreciate these assets for 1980 and 1981 at the rate of 20 percent. The Company applied for a rate of 20 percent on vehicles and 5.33 percent on work equipment acquired after 1980.

Since those assets purchased prior to 1980 are completely depreciated, the Board finds that the rates proposed by the Applicant for depreciating assets in these groups acquired subsequent to 1979, are reasonable and therefore they are approved.

(c) Other. The Company does not distribute interest during construction and overhead to the various plant accounts. The Board finds that these costs should be depreciated over the same life as the pipeline.

The study performed by the external consultant determined that the pipeline has a remaining life of 29.3 years. The Board accepts this estimate and, therefore adjusts the rates to depreciate interest during construction and overhead over the same remaining life as the pipeline.

(d) Depreciation Rates. The depreciation rates approved by the Board are as determined by the Company's consultant except for the adjustments discussed above and the removal of negative salvage value for pipeline, station oil lines, and oil tanks. A recapitulation of depreciation rates as requested by the Applicant and as approved by the Board follows:

DEPRECIATION RATES

ACCOUNT NUMBER	DESCRIPTION	RATES REQUESTED BY APPLICANT	NEB DETERMINATION
		%	%
152	Rights of way	2.38	2.01
153	Pipelines	2.38	2.34
156.1	Building frame	3.33	2.76
156.2	Building brick	2.50	2.62
158	Pumping equipment	3.33	2.61
159.1	Station lines under 6"	4.00	4.40
159.2	Station lines 6" and over	2.86	2.85
160	Other station equipment	2.38	1.42
161	Oil tanks	3.33	3.70
163	Communication systems	6.67	9.14
184	Office furniture	5.00	5.43
185	Vehicle acquired from 1980 on	20.00	20.00
185	Work equipment	5.33	5.33
189	Interest during construction	2.38	3.28
190	Overhead capitalized	2.38	3.28

Depreciation and Amortization. The provision for depreciation included in the revenue requirement by the Applicant is a function of transportation plant in service and the depreciation rates as approved by the Board. The amount of the provision has been adjusted for the changes in rate base and those resulting from the changes in depreciation rates discussed in the previous sections.

The depreciation provision as submitted by the Company, the Board adjustments, and the depreciation approved by the Board are summarized below. The provision for the amortization of assets specially classified and leasehold improvements is accepted as filed in the application.

DEPRECIATION AND AMORTIZATION

Provision for depreciation submitted by the Company	$1,703,287
Reduction of depreciation expense resulting from a change from the whole life technique to the remaining life technique (1,703,287 - $1,688,474)	(14,813)
Reduction of depreciation resulting from the elimination of the effect of negative salvage value from the amounts to be depreciated for pipelines, station oil lines, and oil tanks	(91,338)
Additional depreciation for vehicles and work equipment to reflect rates approved by the Board	32,778
Additional depreciation to depreciate interest during construction and overhead over the same remaining life as the pipeline	9,214
	$1,639,128
Correction resulting from the Applicant's $32,000 error in expected plant additions for 1982 $1,639,128/$65,900,279 x $32,000	(796)
	$1,638,332
Amortization of leasehold improvements	21,420
Amortization of assets specially classified	54,859
Provision for depreciation and amortization approved by the Board	$1,714,611

Income Taxes. TNPL applied for a test period income tax allowance computed on the tax allocation or normalized basis. The Board, as it did in its previous Decision of November 1979, accepts this methodology. The calculation of normalized taxes, together with the average deferred tax balance calculation, appear below. These calculations reflect Board decisions, discussed elsewhere in this report, taken in regard to rate base, rate of return and the Federal Government's November 12, 1981 budget.

In a recent Ways & Means Motion, the Federal Government has proposed that the five percent corporate surtax, which had formerly been in effect only with respect to the years 1980 and 1981, be extended through 1982. At the same time, it was proposed that the CCA deduction in the year an asset is acquired be limited to one-half the normal rate of write-off currently provided.

Since the hearing had been completed before these changes were announced by the Government, they were not reflected in the application or discussed at the hearing. However, since they are changes that will be legally binding on the Company, the Board considered they should be taken into account. By a telex dated 10 December 1981 sent to all parties the Board stated its intention and solicited comments. No comments were received from any party and the Board has decided that these changes should be reflected in the tolls to be authorized as a result of this hearing. Accordingly, the CCA measure has been reflected in the calculation of the average deferred tax balance appearing below while the surtax measure is reflected in the computation appearing in Appendix II to this report. The amount there calculated and to be included in the Company's tolls is $265,652.

Normalized Income Tax Calculation for the Test Year

Return on rate base	$6,518,108
Deduct interest expense	(2,574,000)
Net income before adjustments	$3,944,108
Add net non-deductible expenses	38,093
Normalized income after tax	$3,982,201
Normalized taxes (at 49.87%)	$3,961,493

The average deferred income tax balance, which is deducted in arriving at the allowed rate base, is the average of the opening and closing deferred tax balances for the test period computed as follows:

$$\frac{2 \text{ x beginning deferred tax balance + deferred taxes for the test period}}{2}$$

$$\frac{2 \text{ x } \$6{,}572{,}330 + \$405{,}944}{2} = \$6{,}775{,}302$$

The beginning deferred tax balance applied-for by the Company is accepted by the Board. The deferred taxes (which represent the difference between normalized taxes and taxes payable) for the test year, are calculated by multiplying the tax rate by the net of the timing differences depreciation and capital cost allowance, specifically ($1,714,611 - $2,528,616) x .4987 = $405,944.

CHAPTER 5

RATE OF RETURN

Capital Structure. In its revised submission the Applicant provided the following projected capital structure and requested rate of return for the test year ending 31 December 1982.

	Amount ($)	Ratio (%)	Cost Rate (%)	Cost Component (%)
Long term debt	15,000,000	38.72	17.16	6.64
Common equity	23,744,424	61.28	17.75	10.88
	38,744,424	100.00		17.52

The average capitalization for the test year shown above reflects the applied-for adjustments with respect to the Applicant's restatement of depreciation.

This is the actual capital structure, and the Board finds it reasonable considering the risks of the Company.

Cost of Debt. The Applicant arranged financing with the Bank of Montreal on 5 November 1981 to renew the existing loan of $12,750,223 US. The new long-term loan also in U.S. funds is for a three-year period at 16.75 percent. At the date of issuance the principal amount of the loan yielded $15 million (Canadian).

The Company calculated that the actual cost of debt was approximately 17.16 percent taking into account the conversion of the loan amount to Canadian dollars at the exchange rate at the date of issuance. The Board accepts this cost of debt as reasonable.

Rate of Return on Common Equity. TNPL applied for a rate of return on common equity of 17.75 percent. An expert witness for the Company supported this request, placing primary emphasis on the following considerations:

(1) the higher achieved returns on equity by companies of reasonably comparable risk to TNPL;

(2) the substantial rise in the cost of attracting capital as evidenced by the sharp rise in interest rates; and

(3) the necessity of providing a reasonable risk premium in relation to long-term investments because of the longer-run loss in purchasing power.

The expert witness relied on three approaches for determining the cost of equity, namely, the comparable earnings test supplemented with a DCF study and reference to a normalized interest rate plus an equity risk premium. The evidence of the expert witness, using the minimum and maximum limits of all the three methods, suggests that the rate of return should lie between 16.8 and 18.6 percent.

Having regard to all the evidence, and giving consideration to the subjectivity involved in the methods used, the Board finds 17.0 percent to be a fair and reasonable rate of return on equity for the test year.

Rate of Return on Rate Base and Assets Specially Classified. Based upon its above findings, the Board has decided that a rate of return on rate base of 17.06 percent is fair and reasonable. The derivation of this rate of return is presented below:

	Amount ($)	Ratio (%)	Cost Rate (%)	Cost Component (%)
Long term debt	15,000,000	38.72	17.16	6.64
Common equity	23,744,424	61.28	17.00	10.42
	38,744,424	100.00		17.06

In accordance with the November 1979 Reasons for Decision, assets specially classified are allowed a rate of return equal to one-half the allowed rate of return on rate base and average deferred taxes are deducted from the rate base. The total allowed return to the Company is $6,518,108 as computed hereunder.

Rate base per Appendix III	$38,206,966
Total allowed return (17.06% x $38,206,966)	$ 6,518,108

CHAPTER 6

TOTAL COST OF SERVICE/REVENUE REQUIREMENT

A summary of the total cost of service, which for TNPL is the same as the revenue requirement, is presented below.

REVENUE REQUIREMENT

	Per Submission	Board Adjustments	Board Determination
Operating expenses	$11,282,000	($ 49,000)	$11,233,000
Depreciation and amortization	1,780,000	(65,000)	1,715,000
Amortization of north line costs	129,000	-	129,000
Return	6,694,000	(176,000)	6,518,000
Income taxes	4,136,000	(175,000)	3,961,000
Surtax		266,000	266,000
	$24,021,000	($199,000)	$23,822,000

After giving effect to the adjustments previously discussed, the Board approves a revenue requirement totalling $23,822,000.

CHAPTER 7
TOLL DESIGN

Throughputs. The Board notes that the Applicant experienced a decrease in shipments through its system starting in 1980 when total throughput dropped by 4.5 percent from the 1979 level. The Company states this was to be expected from reduced demand due to the thrust of government energy policy and petroleum product price increases. The Company also projected further decreases in throughput of 4.4 percent for 1981 and 5 percent for 1982, reflecting a further drop in demand for petroleum products for the same reasons. Actual throughput for 1980 was 9 193 000 cubic metres while 1981 volumes are estimated at 8 785 000 cubic metres and 1982 throughputs are forecast to total 8 355 000 cubic metres.

It is noted that in the period since 1978, TNPL's shippers have indicated their intention of changing the source of deliveries to Ottawa markets from Montreal to Toronto. Although the Company increased the capacity of the east line in anticipation of these larger movements, they have not materialized, and TNPL does not expect the ratio of shipments from Montreal and Toronto to change in the near future. The Board recognizes that a change in the supply source for the Ottawa market is dependent upon factors beyond the control of TNPL, such as the supply and price of offshore crude oil, the availability of domestic crude oil and government policy.

The Board believes that the throughput forecast (Appendix IV) submitted by TNPL for the year 1982 is reasonable and adopts this forecast for use in the design of tolls.

Allocation of Rate Base and Cost of Service. The Applicant submitted a toll design based upon the allocation of rate base and cost of service into Lifting, Transmission, Delivery, Toronto Airport, Dorval Airport and Mirabel Airport elements. Evidence shows that the rate base allocation had been adjusted from the November 1979 Reasons for Decision in order to incorporate certain

corrections in the allocation between Transmission and the various airport terminals. In addition the proposed allocations reflect rate base adjustments and expected increases in the test year cost of service.

The Board finds that the proposed methodology conforms to the principles established in the previous decision. The proposed allocation of the revenue requirement, shown in Appendix V, has been adjusted to include the Board adjustments allocated on a proportionate basis to the various functions.

Determination of Tolls. The unit charges calculated by the Applicant are compared below to those approved by the Board. From these charge components, the Board has derived the approved tolls shown in Appendix VI and attached to Board Order No. TO-7-81.

CHARGE COMPONENTS (Cents)

	Company Proposed	Board Approved
Lifting (per m^3)	31.08	30.82
Transmission (per m^3.km)	1.2166	1.2065
Delivery (per m^3)	32.28	32.01
Airport Terminals (per m^3)		
- Toronto	78.74	78.08
- Dorval	171.40	169.98
- Mirabel	130.66	129.58

CHAPTER 8
DISPOSITION

Throughout the preceding chapters, the Board has recorded the following decisions:

(1) TNPL's Tariff No. 16, presently in effect, be disallowed effective 31 December 1981;

(2) The tolls appearing in Board Order TO-7-81 (Appendix VI) be prescribed as the tolls to be charged by TNPL effective 1 January 1982;

(3) TNPL file with the Board a new tariff reflecting the new tolls specified in item (2);

(4) If a new tariff be filed in accordance with item (3) prior to 1 January 1982, it be suspended and be of no effect until that date;

(5) The provisions of TNPL's tariff which are contrary to the NEB Act or to any Order of the Board, including the Order to be issued from these proceedings, be disallowed effective 31 December 1981;

(6) On the basis of the decisions set out in these Reasons for Decision, the approved net rate base for 1982 is \$38,206,966, and the total authorized transportation cost of service for the test year period from 1 January 1982 to 31 December 1982 is \$23,822,000.

(7) For the reasons set out in Chapter 4, the Applicant shall use, both for rate-making and accounting purposes, depreciation rates determined by the remaining life technique and set out in Chapter 4;

(8) For the reasons set out in Chapter 2, the Applicant shall include in rate base the net amount of \$2,730,432.

(9) The Company for accounting purposes, shall record in its books and accounts as of 1 January 1982 the Board's decision contained in paragraph 8 above, namely;

Dr. Account 31, "Accumulated depreciation Transportation Plant"	$5,171,668.	
Cr. Account 71, "Accumulated Tax Reductions Applicable to Future Years"		$2,441,236
Cr. Account 92, "Retained Earnings"		$2,730,432

The foregoing chapters together with Board Order No. TO-7-81, shown as Appendix VI hereto, set forth our Reasons for Decision and our decision in this matter.

J.R. Hardie
Presiding Member

J.L. Trudel
Member

R.B. Horner
Member

NATIONAL ENERGY BOARD | CANADA | OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-5-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by TNPL Inc. (hereinafter called "the Applicant" or "the Company") for certain orders respecting rates and tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T2-4.

B E F O R E the Board on Thursday, the 24th day of September 1981.

UPON reading the application dated the 4th day of September, 1981, filed by the Applicant under Part IV of the National Energy Board Act, for orders fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of the transportation of refined petroleum products and for such further order or orders as will enable the Company to file a tariff containing tolls which are just and reasonable.

IT IS ORDERED THAT:

1. The application will be heard in the Hearing Room, National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, commencing on Monday, the 9th day of November, 1981 at 9:30 a.m. local time. Such proceedings will be conducted in either of the two official languages, and simultaneous translation will be provided should a party to the proceedings request such facilities in his intervention.

2. The Applicant shall forthwith serve a true copy of the said application, and of any amendments to it which may be issued, if not

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already served, and a true copy of this Order, upon all the Applicant's customers, the Attorneys General of the Provinces of Ontario and Quebec, the Canadian Petroleum Association, The Independent Petroleum Association of Canada, and those parties who filed interventions pursuant to Order No. RH-3-79 and as soon as possible upon those persons who have intervened pursuant to paragraph 4 hereof.

3. Notice of the said Hearing in the form prescribed by the Board as set forth in the Notice attached to and forming part of this Order shall be published on or before the 10th day of October 1981, in one issue of each of "The Globe and Mail" and "The Financial Post" and "Financial Times of Canada" in the City of Toronto, "The Citizen" and "Le Droit" in the City of Ottawa, all in the province of Ontario; "The Gazette", and "Le Devoir" in the City of Montreal, in the Province of Quebec; and as soon as possible in the Canada Gazette.

4. Any respondent or intervenor intending to oppose or intervene in the said application shall, on or before the 26th day of October, 1981 file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official languages, containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the application, and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard,

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and which shall indicate whether the respondent or intervenor wishes to receive a copy of the application or a portion thereof. Any respondent or intervenor shall, on or before the 26th day of October, 1981 serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant, and one (1) copy each upon the Attorneys General of the Provinces of Ontario and Quebec, the Canadian Petroleum Association, The Independent Petroleum Association of Canada at the addresses listed in Appendix I and as soon as possible upon each other party who has intervened pursuant to this paragraph, a list of which parties will be available from the Board on or about the 28th day of October 1981, and shall file written proof of service thereof with the Board at the opening of the hearing.

5. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

(a) on or before the 21st day of October, 1981, file thirty (30) copies thereof with the Board and

(b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 4.

6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall unless exempted by the Board, prepare written direct evidence, and shall, on or before the 30th day of October, 1981, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon

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the Applicant and each other party who has intervened pursuant to paragraph 4.

7. The Applicant or any party who has intervened pursuant to paragraph 4 and prepared written direct evidence pursuant to paragraphs 5 and 6 shall file written proof of service thereof at the opening of the hearing.

8. The Rules and Procedures set out in Appendix II to this Order shall govern the conduct of the Hearing.

9. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A OE5.

or at the office of the Applicant at the following address:

TNPL Inc.
Suite 1212,
55 Bloor Street West,
Toronto, Ontario
M4W 3H3.

DATED at the City of Ottawa, in the Province of Ontario, this 24th day of September, 1981.

NATIONAL ENERGY BOARD

G. Yorke Slader
Secretary

NATIONAL ENERGY BOARD

NOTICE OF PUBLIC HEARING

TNPL INC. - TOLLS AND TARIFFS

TNPL Inc. has applied to the National Energy Board for approval of the tolls and tariffs to be charged for the transportation of refined petroleum products.

The National Energy Board will conduct a public hearing of the application to obtain information and to hear the relevant views of interested persons, groups, organizations and companies.

The hearing will open on Monday, 9 November 1981 at 9:30 a.m. local time, in the Hearing Room of the Board, Trebla Building, 473 Albert Street, Ottawa, Ontario. It will be conducted in either French or English and simultaneous translation will be provided should a party to the proceedings request this service in its written submission.

Any party who intends to participate in the hearing must file with the Board a written submission, in either English or French, which may admit or deny any or all of the statements contained in the application. The submission must state:

1) the nature of the party's interest in the application,
2) whether he wishes to use English or French at the hearing,
3) whether a copy of the application or a portion thereof will be required, and
4) the name and address of the interested party or that of its lawyer to whom communications may be sent.

Thirty (30) copies of the submission and any supporting information must be delivered to the Secretary of the Board no later than 26 October 1981. Three (3) copies must be delivered by the

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same date to TNPL Inc., and one (1) copy each upon the Attorneys General of the Provinces of Ontario and Quebec, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada and as soon as possible, upon each of the other intervenors, a list of whom will be available from the Board on or about 28 October 1981.

Any intervenor wishing to present direct evidence in the Hearing must prepare written direct evidence and file thirty (30) copies with the Secretary of the Board and one (1) copy with TNPL Inc. no later than 30 October 1981. One (1) copy of the written direct evidence must also be delivered to each of the intervenors by 2 November 1981.

At the opening of the hearing, the Board will require written proof that the submission and any supporting documents, and the written direct evidence if any, have been served on all parties to the Hearing.

A copy of the application will be available for examination during normal business hours at the following locations:

Ottawa	National Energy Board, Trebla Building, 473 Albert Street, Ottawa, Ontario. K1A OE5
Toronto	TNPL Inc., Suite 1212, 55 Bloor Street West, Toronto, Ontario. M4W 3H3

Statutory References

The National Energy Board Act, Part IV (R.S.C. 1970, C. N-6, as amended)

G. Yorke Slader,
Secretary,
National Energy Board

Dated at Ottawa, Canada

APPENDIX I

to Order No. RH-5-81

Attorney General of the
Province of Ontario,
18 King Street East,
Toronto, Ontario
M5C 1C5

and

Senior Counsel,
Legal Services,
Ministry of Energy,
56 Wellesley Street West,
12th Floor,
Toronto, Ontario
M7A 2B7

Ministere de la Justice,
Procureur général de la
Province de Québec,
Edifice Delta,
1200 route de l'Eglise,
Ste-Foy, Québec
G1R 4X7

and

Service juridique du Ministère
de l'énergie et des ressources,
200B, chemin Ste-Foy,
Québec City, Québec
G1R 4X7

The Secretary,
Canadian Petroleum Association,
1500 - 633 - Sixth Avenue S.W.,
Calgary, Alberta
T2P 2Y5

Mr. A.E. Potter,
Manager, Regulatory Affairs,
Independent Petroleum Association
of Canada,
Suite 700, 707 - 7th Avenue S.W.,
Calgary, Alberta
T2P 0Z2

APPENDIX II TO ORDER NO. RH-5-81

RULES AND PROCEDURES

1. In these Rules, "party" means TNPL Inc., and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-5-81.

2. At the public hearing of the Application by TNPL Inc., the evidence shall be heard in the following order:

(1) Rate base and Cost of Service excluding return;

(2) Rate of Return; and

(3) Rate Design and Other Tariff matters.

3. The Board shall hear all of the evidence on each of the three items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same item.

4. Upon the completion of the evidence on all three items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.

5. Any party who wishes to obtain additional information from the Applicant in respect of matters raised in the Application, may request in writing that such information be provided and the Applicant shall, as soon as possible, either make a written response to that request or apply to the Board for relief from this requirement. Wherever possible, in order to expedite the Hearing, these requests and responses should be made before the commencement of the Hearing.

6. Any party receiving an information request from the Board shall respond as soon as possible by filing with the Secretary of the Board five (5) copies of the response, and shall file the information request and its response together as an exhibit at the hearing.

7. Where a party files and serves written direct evidence pursuant to paragraph 6 of Order No. RH-5-81, any other party may request in writing that the party filing such written direct evidence provide additional information respecting the matters dealt with in the direct evidence and the party to whom such a written request is made shall, as soon as possible, make a written response to that request.

8. Both the written request and the response thereto, referred to in paragraphs 5 and 7 of these Rules, shall be filed as exhibits at the hearing.

9. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

10. The order of appearance of parties and sequence of adducing evidence and conducting cross-examination shall be announced by the Board on or before the opening of the hearing.

CALCULATION OF CORPORATE SURTAX

The Federal Budget proposal to extend the five percent corporate surtax through 1982 is to be reflected in the Company's tolls by the inclusion of a separate allowance equal to the surtax estimate computed in the following series of steps. This iterative process is required because current taxes payable form part of working capital and hence are reflected in turn by rate base, return, normalized taxes, current taxes payable and, finally, the surtax itself. The following steps were used.

1. The allowed rate of return of 17.06 percent is applied to the net of: average net plant in service; one-half of average net assets specially classified; working capital exclusive of a provision for current income taxes payable and; the average deferred tax balance.

2. Interest expense of $2,574,000[(1)] is deducted therefrom, while $38,093 in miscellaneous adjustments[(2)] is added thereto, providing an estimate of normalized income after tax.

3. The result of step 2 is then multiplied by a factor of .9948[(3)] to obtain an estimate of normalized taxes.

4. To the sum of the results obtained in 2 and 3 above, amounts in respect of depreciation ($1,714,611) and capital cost allowance ($2,528,616) are added and subtracted respectively to obtain an estimate of taxable income.

Notes:

(1) $15,000,000 x 17.16 percent. - see page 24 of this report.

(2) See Application Tab Cost of Service Schedule 7.3.

(3) $\frac{\text{tax rate}}{\text{1-tax rate}}$ or $\frac{.4987}{.5013}$

5. The result obtained in step 4 is multiplied by .5167[4] to obtain an estimate of taxes payable.

6. Steps 1 through 5 are then repeated, with the working capital element of rate base adjusted to include the estimate of taxes payable obtained in step 5.

7. Steps 1 through 4 are repeated, using the 2nd estimate of taxes payable determined in step 6.

8. Federal Part 1 taxes payable are computed on the taxable income resulting from step 7 at a rate of 36 percent.

9. The surtax is computed by multiplying, by a factor of 10.35[5] percent, the taxes payable computed in step 8.

Notes:

(4) tax rate + surtax rate = 49.87 + (.05 x .36)

(5) The factor which results from using the overall tax rate of 49.87 percent and the Federal tax rate of 36 percent.

	COLUMN 1	COLUMN 2	COLUMN 3
STEP 1			
Average net plant in service	$43,040,107	$43,040,107	$43,040,107
One-half of average net assets specially classified	$ 68,575	$ 68,575	$ 68,575
Working capital	$ 1,591,036	$ 1,869,826	$ 1,873,586
Average deferred tax balance	$ 6,775,302	$ 6,775,302	$ 6,775,302
Rate base	$37,924,416	$38,203,206	$38,206,966
Rate of return	.1706	.1706	.1706
Return	$ 6,469,905	$ 6,517,467	$ 6,518,108
STEP 2			
Return	$ 6,469,905	$ 6,517,467	$ 6,518,108
Deduct interest	$ 2,574,000	$ 2,574,000	$ 2,574,000
Add miscellaneous differences	$ 38,093	$ 38,093	$ 38,093
Normalized income after tax	$ 3,933,998	$ 3,981,560	$ 3,982,201
STEP 3			
Normalized income after tax	$ 3,933,998	$ 3,981,560	$ 3,982,201
Normalized tax factor	.9948	.9948	.9948
Normalized taxes	$ 3,913,541	$ 3,960,856	$ 3,961,493
STEP 4			
Sum of results obtained in steps 2 and 3	$ 7,847,539	$ 7,942,416	$ 7,943,694
Add depreciation	$ 1,714,611	$ 1,714,611	$ 1,714,611
Dedut capital cost allowance	$ 2,528,616	$ 2,528,616	$ 2,528,616
Taxable income	$ 7,033,534	$ 7,128,411	$ 7,129,689
STEP 5			
Taxable income	$ 7,033,534	$ 7,128,411	
Taxes thereon	$ 3,634,227	$ 3,683,250	

STEP 6

Repeat steps 1 - 5 - See column #2

STEP 7

Repeat steps 1 - 4 - See column #3

STEP 8	
Taxable income from step 7	$ 7,129,689
Federal Part 1 tax rate	.36
Federal Part 1 taxes	$ 2,566,688
STEP 9	
Federal Part 1 taxes	$ 2,566,688
Surtax factor	.1035
Surtax	$ 265,652

RATE BASE

	Per Application	Board Adjustments	Board Determination
Plant in service	$65,884,279(1)		$65,884,279
Leasehold improvements	215,345		215,345
	66,099,624		66,099,624
Accumulated depreciation plant in service	23,037,398	32,478(2)	23,004,920
Amortization leasehold improvements	54,597		54,597
	23,091,995	32,478	23,059,517
Net plant in service	$43,007,629	$32,478	$43,040,107
Assets specially classified	361,558		361,558
Amortization of assets specially classified	224,409		224,409
	137,149		137,149
Assets specially classified included in rate base	$ 68,575		$ 68,575
Working capital	$ 2,197,181	($323,595)	$ 1,873,586
Rate base before deducting deferred taxes	$45,273,385	($291,117)	$44,982,268
Average deferred taxes			$ 6,775,302(3)
Net rate base			$38,206,966

NOTES

(1) The Applicant indicated that it had made an error of $32,000 in the proposed plant additions for 1982. This results in a $16,000 reduction for plant in service per application.

(2) The Applicant had estimated accumulated depreciation at the end of the test year at $23,805,626. The Board determined that the accumulated depreciation should have been $23,740,641. The Applicant submitted a 1982 depreciation expense of $1,703,287 which the Board revised to $1,638,332 as shown on page 20 of these Reasons for Decision. The net amount ($64,955) is reduced by the averaging effect to $32,478.

(3) This represents the average of opening ($6,572,230) and closing ($6,978,278) deferred tax balances.

1982 THROUGHPUT ESTIMATE

$10^3 m^3$

Source	Montreal	Nanticoke	Oakville	Clarkson	North Toronto	Total
Destination						
Dorval Jet	185					185
Dorval Non-Jet	30					30
Mirabel	285					285
Cornwall	135					135
Ottawa	1 350					1 350
Total - Mtl. System	1 985					
Hamilton		520	-	-	-	520
Port Credit		950	-	-	-	950
Toronto Airport		231	395	79	-	705
North Toronto		104	717	179	-	1 000
Toronto Harbour		588	537	-	-	1 125
Markham		20	75	-	-	95
Port Hope		98	131	156	-	385
Belleville		163	28	124	-	315
Kingston		78	123	116	18	335
Maitland		-	-	8	7	15
Prescott		17	8	-	-	25
Ottawa		319	228	241	112	900
Total - Toronto System		3 088	2 242	903	137	6 370
TOTAL SYSTEM:						8 355

ALLOCATION OF REVENUE REQUIREMENT

	LIFTING	TRANSMISSION	DELIVERY	TORONTO AIRPORT	DORVAL AIRPORT	MIRABEL AIRPORT	TOTAL
Revenue requirement per application	$2,596,908	$17,862,066	$2,317,357	$555,088	$317,097	$372,384	$24,020,900
Board adjustments	(21,514)	(147,977)	(19,198)	(4,599)	(2,627)	(3,085)	(199,000)
Approved revenue requirement	$2,575,394	$17,714,089	$2,298,159	$550,489	$314,470	$369,299	$23,821,900
Cubic metres	8 355 000		7 180 000	705 000	185 000	285 000	
10^3 cubic metre kilometres		1 468 193					
Tariff component($)	.3082	.012065	.3201	.7808	1.6998	1.2958	

NATIONAL ENERGY BOARD — CANADA — OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TO-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by TNPL INC. (hereinafter called "the Applicant" or "the Company") for certain orders respecting rates and tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T2-4.

B E F O R E:

J.R. Hardie, Presiding Member	On Monday the 21st
J.L. Trudel, Member	day of December, 1981.
R.B. Horner Member	

UPON an application by the Applicant dated the 4th day of September, 1981, as amended, under Part IV of the National Energy Board Act, for orders fixing the just and reasonable rates or tolls the Company may charge for or in respect of the transportation of refined petroleum products and for such further order or orders as will enable the Company to file a tariff containing tolls which are just and reasonable;

AND UPON the Board having heard the evidence and submissions relating to the said application at a public hearing held on the 9th, 10th and 12th days of November, 1981;

AND UPON the Board by telex dated the 10th day of December 1981, having advised the Applicant and all interested parties of

... 2

record, that the changes to income tax and the corporate surtax announced by the Minister of Finance on the 12th day of November, 1981 would be incorporated in the Board's determination of just and reasonable tolls for the Company;

IT IS ORDERED THAT:

1. The Company shall, effective the 1st day of January 1982, charge for or in respect of the transportation of refined petroleum products, the rates and tolls prescribed in Schedule A hereto.

AND IT IS FURTHER ORDERED THAT:

2. The Company shall forthwith file with the Board a tariff conforming with this Order and serve it upon

(a) the Company's shippers;

(b) the Attorneys General of Ontario and Quebec;

(c) Air Canada; and

(d) any person who notifies the Company and the Board that he wishes to be registered as an interested person in the Company's tolls and tariffs, and is accepted by the Board as such.

3. Notwithstanding the filing of the tariff referred to in paragraph 2 hereof, the same shall remain suspended and be of no effect until the 1st day of January, 1982.

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4. Those provisions of the Applicant's tariffs, or any portion thereof, that are contrary to any provisions of the National Energy Board Act, or to any Order of the Board including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 31st day of December, 1981.

DATED at the City of Ottawa, in the Province of Ontario, this 21st day of December, 1981.

NATIONAL ENERGY BOARD

G. Yorke Slader

G. Yorke Slader
Secretary

SCHEDULE A

TNPL INC.
TOLLS EFFECTIVE 1 JANUARY 1982
IN DOLLARS PER CUBIC METER AT 15°C

Source	Destination	Per m^3 at 15°C
Montreal	Dorval - jet	$2.504
	- non-jet	1.124
	Mirabel	2.163
	Cornwall	2.077
	Prescott	2.986
	Maitland	3.138
	Ottawa	3.199
Nanticoke	Hamilton	1.360
	Oakville	1.588
	Port Credit	1.852
	Clarkson	1.763
	Toronto Airport	2.579
	N. Toronto	2.242
	Toronto Harbour	2.591
	Markham	2.492
	Port Hope	3.469
	Belleville	4.413
	Kingston	5.241
	Maitland	6.297
	Prescott	6.519
	Ottawa	7.878

Source	Destination	Per m^3 at 15°C
Oakville	Port Credit	0.892
	Clarkson	0.803
	Toronto Airport	1.619
	N. Toronto	1.281
	Toronto Harbour	1.630
	Markham	1.532
	Port Hope	2.509
	Belleville	3.453
	Kingston	4.281
	Maitland	5.337
	Prescott	5.559
	Ottawa	6.917
Clarkson	Port Credit	0.718
	Toronto Airport	1.445
	N. Toronto	1.107
	Toronto Harbour	1.456
	Markham	1.357
	Port Hope	2.335
	Belleville	3.279
	Kingston	4.107
	Maitland	5.163
	Prescott	5.384
	Ottawa	6.743

Source	Destination	Per m^3 at 15°C
Port Credit	Toronto Airport	1.364
	N. Toronto	1.027
	Toronto Harbour	1.376
	Markham	1.277
	Port Hope	2.255
	Belleville	3.199
	Kingston	4.027
	Maitland	5.083
	Prescott	5.304
	Ottawa	6.663
N. Toronto	Toronto Harbour	0.977
	Markham	0.878
	Port Hope	1.856
	Belleville	2.800
	Kingston	3.628
	Maitland	4.684
	Prescott	4.905
	Ottawa	6.264